Case Mix Growth in FY06

Health Services Cost Review Commission
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This document is a ready for Commission action.

Introduction

As part of the transition to APR-DRGs, the Commission approved the move to APR-DRGs for the current fiscal year. Because coding improvement under DRG-based case mix systems results in case mix growth that is not associated with real resource use, however, the Commission chose to regulate the amount of case mix that will be recognized under APR-DRGs until a steady state of coding is reached.

To control the revenue associated with measured case mix growth, the Commission adopted a governor which was structured as follows:

Measured Case Mix Growth	Amount Recognized
<0%	100%
0-1%	100%
1 – 2.5%	75%
2.5 – 4%	50%
>4%	25%

Because the update factor for all hospitals reflects expected case mix growth of 1.7% for FY06, the staff attempted to develop a governor on case mix growth to remain within that budget. The model was calibrated by looking at annualized rates of case mix growth under APR-DRGs in fiscal year 2005. At that time, statewide case mix growth was 2.8%. This governor would deliver 1.5% growth. The calibration was a conservative measure because the staff expected coding practices to become more aggressive when hospital revenue will be directly affected by coding improvements. The recommendation noted that this structure may need to be recalibrated based on actual experience and future revenue growth expectations.

Since the governor was accepted by the Commission, new information is now available for case mix growth under APR-DRGs in FY05. At mid-year, the annualized rate of growth was 2.8% for the industry. By year end, case mix growth was 4.02% for revenue under the charge-per-case system. The approved governor would deliver 2.31% case mix growth under APR-DRGs.[1]

(Note that case mix growth under the CMS grouper was just over 1.3% for CPC revenue and 1.77% for all inpatient revenue before adjustments for current case mix limits and 1.61% after the limits are applied. Under the update factor established for FY05, total case mix growth was budgeted at 1.5%. Under current policy, FY06 targets are to be adjusted to recover any case mix growth in excess of the budgeted 1.5% growth.)

[1] Note that these numbers have been corrected from the previous draft of this document. 4.02% statewide case mix growth includes MIEMS, but for these calculations, MIEMS is excluded because the case weights and case mix are computed under different rules. Statewide case mix growth without MIEMS is 3.82%.

Higher case mix growth under APR-DRGs in FY05 is desirable because achieving better coding before moving to APRs leaves less room for revenue growth from coding improvement in FY06. What is disturbing in these numbers, however, is the fact that Johns Hopkins Hospital and the University of Maryland Medical Center both experienced case mix growth near 4%. Because both of these institutions have been on APR-DRGs for several years and improved their depth of coding substantially over this period, the staff expected to see the potential for case mix growth decline. However, depth of coding has continued to improve and case mix growth has increased accordingly. The implication for the system is that case mix growth for the industry may be substantially higher than expected in FY06.

Because excessive measured case mix growth could produce substantially too much revenue for the industry relative to national trends, the Commission may find that the industry has exceeded established performance targets after FY06. If case mix growth dramatically exceeds the 1.7% built into the current projections, the next year's update factor might have to be curtailed to keep the system at an appropriate level of growth and to maintain the Medicare waiver performance.

Given this situation, the staff proposes that the current governor be tightened to keep revenue at projected levels. Many options are available and have been modeled. The staff believes that the following version of the governor would be appropriate to deliver reasonable levels of case mix growth and protect the system at the same time.

Proposed governor:	
<0%	100%CM
0-1%	80% CM
1-2.0%	50% CM
2-4%	25% CM
>4%	10% CM

Under this version of the governor, state case mix growth would be 1.37% for FY05 under APR-DRGs.

Under this version of the governor, hospitals will receive 80% of the first percent of case mix growth, recognizing that case mix growth even at low levels will be partially code driven in this transition period. The incremental case mix recognized at higher levels of growth decreases under the presumption that higher levels are largely driven by coding. The Commission has already approved additional case mix revenue for programmatic changes. In these cases the staff would look for changes in volume across APR-DRGs (holding severity constant), at CMS changes, and in shifts between medical and surgical volumes as the first steps for analyzing any hospital request for programmatic revenue that was limited by the governor.

NOTE TO FINAL VERSION: This recommendation was amended by the Commission prior to adoption. The final recommendation is as follows:

1. The Commission accepted the staff recommendation regarding the governor.
2. The Commission asked the staff to present a proposal providing specific information on the application process for programmatic change.
3. The proposal was modified to state that the system would experience 1.7% case mix growth at level 1 (revenue included under the CPC) for FY2006. If case mix growth exceeds that growth rate, FY2007 CPC targets would be reduced to force system revenue to the appropriate level. If case mix growth is less than 1.7%, revenue would be restored in FY2007 targets to allow the hospitals to recover the projected level of revenue.